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STANDING COMMITTEE ON FINANCE (2008-2009)

FOURTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF FINANCIAL SERVICES)

FLOW OF CREDIT TO AGRICULTURE SECTOR

SEVENTY-EIGHTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

December, 2008/*Agrahayana*, 1930 (*Saka*)

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Presented to Lok Sabha on 18.12.2008
Laid in Rajya Sabha on 18.12.2008

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COMPOSITION OF STANDING COMMITTEE ON FINANCE (2008-2009)

Shri Ananth Kumar — *Chairman*

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3. Shri Gurudas Dasgupta
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5. Shri Vijoy Krishna
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18. Shri M.A. Kharabela Swain
19. Shri Suresh Prabhakar Prabhu
20. Shri Ramakrishna Badiga*
21. Vacant#

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* Nominated to this Committee *w.e.f.* 26.8.2008.

\# Vacant *w.e.f.* 14.11.2008 on nomination of Shri Brajesh Pathak to Rajya Sabha.

Rajya Sabha

22. Shri Raashid Alvi
23. Shri M. Venkaiah Naidu
24. Shri S.S. Ahluwalia
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SECRETARIAT

1. Shri R.C. Ahuja	—	*Additional Secretary*
2. Shri A.K. Singh	—	*Director*
3. Shri T.G. Chandrasekhar	—	*Deputy Secretary*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance (2008-09) having been authorized by the Committee to submit the Report on their behalf, present this Seventy-eighth Report on 'Flow of Credit to Agriculture Sector'.

2. The Committee took evidence of the representatives of Ministry of Finance (Departments of Economic Affairs and Financial Services) and NABARD on 4 April, 2008. The Committee took further evidence of the representatives of Ministry of Finance (Department of Financial Services) and the State Bank of India on 10 June, 2008.

3. The Committee, during their study tours undertaken from 10 to 16 January, 2008 and 26 to 31 July, 2008 also took up the subject for informal discussions with the managements of public sector commercial banks and NABARD.

4. The Committee considered and adopted the Report at their sitting held on 16 December, 2008.

5. The Committee wish to express their thanks to the Ministry of Finance (Departments of Economic Affairs and Financial Services), NABARD and public sector commercial banks for placing before them the requisite material and their considered views in connection with the examination of the subject.

NEW DELHI;
16 *December,* 2008
25 *Agrahayana,* 1930 *(Saka)*

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

REPORT

PART I

BACKGROUND ANALYSIS

1. Agriculture Credit Delivery Structure

(i) Sources of Credit

1.1 Major institutions involved in disbursement of agricultural credit are: Scheduled Commercial Banks, Regional Rural Banks (RRBs) and Cooperative Credit Institutions. At present, the share of Scheduled Commercial Banks, Cooperative Banks and RRBs in total disbursement of direct agricultural credit to farmers is 65 per cent, 23 per cent and 11 per cent respectively. The agency-wise and purpose-wise disbursements of agricultural credit for 2007-08 (upto September, 2007) are indicated below:-

(Rs. crore)

Agency	Short Term Credit	Investment Credit	Total Agriculture Credit
Coop. Banks	26,372(95%)	1,347(5%)	27,719
RRBs	10,788(86%)	1,744(14%)	12,532
Commercial Banks	43,619(72%)	17,151(28%)	60,770
Total	80,779(80%)	20,242(20%)	1,01,021

(figures in brackets indicate percentage to total)

1.2 Institutional Credit flow to agriculture has received major focus of the policy makers after independence. Yet, institutional agricultural credit disbursement could not substitute informal sources of credit totally. An overwhelming majority of farmers are still dependent on informal sources for meeting their credit needs to a large extent.

1.3 The All India Debt and Investment Survey (NSS Fifty-Ninth Round) has revealed that share of institutional agencies in the total cash dues of urban households had increased from 72 per cent in 1991 to 75.1 per cent in 2002 and that of moneylenders had also increased

during the period from 10.2 per cent to 14.1 per cent. In the case of rural households on the other hand, the share of institutional agencies had in fact declined from 64 per cent in 1991 to 57.1 per cent in 2002. And more significantly, the share of money lenders had increased in the same period from 17.5 per cent to 29.6 per cent in the case of rural households.

1.4 The data on institutional financing of small and marginal farmers and tenant farmers/share croppers and oral lessees for the years, 2006-07 and 2007-08, furnished to the Committee by the Ministry of finance (Department of Financial services) reveals that while the coverage is low, small and marginal farmers account for more than 50% of the loanees and the credit outreach to the tenant farmers/ share croppers/oral lessees is negligible. The relevant data on the number of institutional accounts held by different categories of farmers is shown below:

Agency	2006-07					2007-08				
	Total A/Cs	No. of A/C For SF/MF	% Share	No. of A/C for TF/SC/ OL	% Share	Total A/Cs	No. of A/C for SF/MF	% share	No of A/C for TF/SC/ OL	% share
CBs	146	74	51	3	2	75	38	51	1.48	2.00
Coops.	189	100	53	1	0.5	135	74	55	0.72	0.54
RRBs	62	40	64	0	1	27	23	85	0.15	0.56
Total	397	214	54	4	1	42	136	57	2.35	0.90

Note:- SF: Small Farmers, MF: Marginal Farmers, TF: Tenant Farmers, SC: Share Croppers, OL: Oral Lessee

(ii) Expert Groups and Committees on Agricultural Credit

1.5 Various Committees and Expert Groups have been appointed from time to time to examine institutional credit availability of farmers and suggest measures to include more and more farmers in the mainstream of institutional credit, prominent among them being All India Rural Credit Review Committee, 1966, High level Committee on agricultural Credit, 1997, Expert Committee on Rural credit, 2000, National Commission on Farmers, 2004 and Expert Group on Agricultural Indebtedness, 2007. They have made in-depth analysis of the problems of rural credit and recommended measures to rectify them. However, the preponderance of non-institutional credit still persists causing perpetual indebtedness of farmers.

(a) Expert Group on Agricultural indebtedness

1.6 The Government, in August, 2006 constituted an Expert Group under the Chairmanship of Prof. R. Radha Krishna to look into the problems of Agricultural indebtedness in its totality and suggest measures to provide relief to farmers across the Country. The Expert Group, which submitted its report in July, 2007 examined, *inter alia*, the sources of credit and found that 40 per cent of the loans taken by farmers came from money lenders, traders and such other non-institutional sources which charged interest rates of over 30 per cent. The Expert Group, therefore, felt that there was a need to relieve the farmers from private debt carrying high interest rate by transferring it to institutional agencies. The Group also found that farmers in States which recorded the highest rates of suicide borrowed money for productive purposes *i.e.* to buy seeds, fertilizers, pesticides etc. Therefore, the Group said that policy of debt relief must be flexible to take into account regional variations and requirements.

1.7 Other credit measures suggested by this Group include, re-schedulement of loans to farmers and waiver of interest in case of second consecutive failure. It has suggested strengthening of credit counselling mechanism, simplification of procedures of mortgage, computerization of land records, strengthening the resource base of NABARD, promotion of farmers' self-help groups and federations, risk mitigation measures, such as, strengthening of National Agricultural Insurance Scheme, creation of a Price Risk Mitigation Fund, introduction of Weather Insurance, use of Satellite Imagery for Crop Surveillance and promotion of off-farm employment. The major issues relating to agricultural credit identified by the Expert Group on Agricultural indebtedness include, poor performance of credit cooperatives and regional rural banks, inability of commercial banks to meet targets for agricultural lending and high cost of rural banking.

(b) Technical Group to review legislations and money lending

1.8 In May, 2006, the Reserve Bank constituted a Technical Group under the Chairmanship of Shri S.C. Gupta to review the efficacy of the existing legislative framework that governs money lending as well as the enforcement machinery in different states and make recommendations for its improvement. The technical group, in their report recommended a model legislation to regulate money lending, fixing maximum interest rate and registration of money lenders. It also proposed appointing individuals or accredited loan providers who would lend funds to borrowers in competition with money lenders, preventing them from charging arbitrary interest rates and treating the

advances made by institutional creditors to accredited loan providers as priority sector lending.

(c) Committee on Financial Inclusion

1.9 The Committee on Financial Inclusion, chaired by Dr. C. Rangarajan, which submitted its report in January, 2008 observed, *inter alia*:

> "NSSO data (59th Round) reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources)."

1.10 The Rangarajan Committee has also indicated that 64.95 million cultivator households and 46.6 million non-cultivator households (agricultural labourers, artisans and others) do not have access to formal financial services. According to the Committee on Financial Inclusion, financial inclusion must be taken up in a mission mode as a National Rural Financial Inclusion Plan (NRFIP). The target for NRFIP could be to provide access to comprehensive financial services to at least 50% (55.77 million) of the excluded rural cultivator and non-cultivator households, across different States by 2012 through rural/semi urban branches of Commercial Banks and RRBs. The remaining households, with such shifts as may occur in the rural/urban population, have to be covered by 2015.

(iii) Measures to improve flow of credit

1.11 As indicated in a written note furnished to the Committee by the Ministry of Finance (Department of Financial Services), the measures taken by the Government of India and RBI in the recent period for improving flow of credit to agriculture include:-

(a) As recommended by the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Vyas Committee), in order to improve the flow of credit to small and marginal farmers (which form a part of the weaker sections), the Public Sector Banks (PSBs) were advised in 2004 to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct disbursements under the Special Agricultural Credit Plan (SACP) by March 2007. The PSBs have disbursed

Rs. 40,965 crore during 2006-07, which works out to 44.68% of direct credit under SACP.

(b) With a view to bringing distressed persons into the fold of formal financial system, banks have been advised that they may grant loans to distressed persons to prepay their debt to non-institutional lenders, against appropriate collateral or group security. Such loans are eligible to be classified under Weaker Section category within the priority sector.

(c) One Time Settlement (OTS) Scheme for Small and Marginal Farmers:

Banks were advised to formulate guidelines, with the approval of their Boards of Directors, on one-time settlement for small and marginal farmers, who have been declared as defaulters and have become ineligible for fresh credit. On settlement, these farmers would become eligible for fresh finance.

(d) As a part of monitoring/review mechanism of the performance of banks under Government Sponsored Schemes, RBI has been advising all Scheduled Commercial Banks to implement the schemes in right earnest and achieve the targets set under the schemes."

1.12 Other agricultural credit measures initiated include:

(a) Farm credit package announced on 18.6.2004

As per the Government of India package announced on 18th June, 2004, credit flow to agriculture sector had to be doubled over the position of 2003-04 in next three years *viz*. 2004-05, 2005-06 and 2006-07. The credit flow got doubled in a period of two years. The package also stipulated relief to farmers in distress by restructuring loans to farmers who suffered production and income losses on account of natural calamities for two successive years, relief to farmers in arrears by restructuring of loans to farmers whose dues to the banking system were in arrears and who became ineligible for fresh credit and One Time Settlement for small and marginal farmers to settle their NPA accounts. To mitigate the distress, farmers face due to the heavy debt from non-institutional lenders (e.g. moneylenders), banks were enabled, subject to the guidelines to be approved by their Boards of Directors, to advance loans to such farmers, against appropriate collateral or group security. Under this Scheme, the banks have provided Rs. 307.30 crore (data provisional) of credit to farmers against 71,103 accounts.

From the year 2008-09, banks have been advised to earmark around 3% of the target for agriculture credit in 2008-09 for giving loans under the Debt Swap Scheme.

(b) Special package relating to Agriculture Credit for Debt Stressed Districts

Keeping in view the conditions of the farmers in the 31 districts in the four States of Maharashtra (06), Andhra Pradesh (16), Karnataka (06) and Kerala (03), where a large number of farmer suicides had been reported, a Relief Package to mitigate the distress of farmers has been implemented. The package involved waiver of the entire interest on overdue loans as on 1.7.2006, reschedulement of these overdue loans over a period of 3-5 years with a one year moratorium and fresh credit flow to these districts. The burden of waiver of overdue interest was shared equally by the State Governments (50%) and by the Central Government (50%). The share of Government of India is about Rs. 1814 crore.

(c) Interest Subvention to farmers

As per the announcement in the Union Budget 2006-07, Government is providing interest subvention of 2% per annum to Public Sector Banks, Regional Rural Banks and Cooperative Banks on their own funds and concessional refinance to Cooperative Banks and Regional Rural Banks. Under this Scheme, farmers are able to get short term credit at 7% rate of interest with an upper limit of Rs. 3 lakhs on the principal amount since 2006-07. The scheme of interest subvention was continued in 2007-08. The estimated commitments for 2006-07 and 2007-08 are Rs. 1856 crore and Rs. 2472 crore respectively.

(d) Announcements in the Budget 2008-09 relating to agricultural credit

(i) The Government of India has stipulated a target of Rs. 2,80,000 crore for agricultural credit flow by all the banks during 2008-09.

(ii) Interest subvention scheme has been continued for the year 2008-09 also.

(iii) Budget 2008-09 envisages constitution of a National Rural Credit (Short Term Operations) Fund of Rs. 5,000 crore to enhance NABARD's refinance operations to short term cooperative credit institutions and RRBs.

(iv) Accepting the recommendation of the Commtitee on Financial Inclusion (chaired by Dr. C. Rangarajan) relating to National Rural Financial Inclusion Plan, commercial banks, including RRBs are being advised to add at least 250 new rural household accounts every year at each of their rural and semi-urban branches.

(v) Government has also announced a Scheme of Debt Waiver for small and marginal farmers and an One Time Settlement Scheme for other farmers. The implementation of the debt waiver and debt relief scheme has been completed by June 30, 2008.

1.13 Specifically on the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), the Committee had, in their report on Demands for Grants (2008-09) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) observed, *inter-alia* that the scheme appeared to address the symptoms and not the root cause of the malady as rural indebtedness was deep rooted in the Indian agrarian society requiring concerted efforts and multipronged approach.

1.14 On the expected benefits that would accrue from the debt waiver and debt relief scheme, the action taken note furnished by the Ministry of Finance on the observation of the Committee, reads, *inter-alia* as under:—

"…the Government announced the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) 2008, which will, among other things:

a. De-clog the choked line of credit to farmers, as a sizeable number of indebted farmers who were otherwise unable to access formal financial sector will now get access to fresh loans. Such farmers otherwise, had to depend on the informal sector to meet their immediate credit needs at a usurious rate of interest;

b. Strengthen the financial health of the rural financial institutions, particularly, the Cooperative Credit Institutions (CCIs) and Regional Rural Banks (RRBs), whose financial position was adversely affected due to defaults by a substantial number of farmers, so that these banks can meet the credit needs of the farmers, particularly, the small farmers, marginal and tenant farmers, in a more effective manner."

1.15 On the measures being taken by the Government to improve flow of credit to agriculture sector, the Secretary (Department of Financial Services), while deposing before the Committee, stated, *inter alia* as under:

> "The Ministry of Finance constituted in 2006 an Expert Group on agricultural indebtedness under the Chairmanship of Prof. Radhakrishna which has made several valuable suggestions. In addition to this, revival package for short term cooperative credit structure is under implementation. It is called the Vaidhyanathan Short Term Credit Cooperative sector package. A Long Term Credit Cooperative rejuvenation package has also been discussed with the States and finalized."

2. SHORTFALL IN AGRICULTURAL LENDING BY BANKS

2.1 The need to channelise the flow of credit to certain sectors of the economy, known as the priority sector was first expressed in RBI's credit policy for the year 1967-68. The description of the priority sectors was formalized in 1972 and in November, 1974, public sector banks were advised that their priority sector lending should reach a level of not less than one-third of the outstanding credit by March 1979. Similarly, in November, 1978, private sector banks were also advised to lend a minimum of $33^1/_3$ per cent of their total advances to priority sector by the end of March, 1980. Subsequently, the target of 40 per cent for priority sector was fixed in which sub targets of 18 and 10 per cent for agriculture and weaker sections were stipulated.

2.2 RBI has mandated domestic scheduled commercial banks (both in public and private sector) to provide 18 per cent of Adjusted Net Bank Credit (ANBC) to agriculture sector, of which 13.5 per cent is to be disbursed as direct credit and 4.5 per cent towards indirect credit to agriculture.

2.3 Direct Agricultural advances refer to advances given by banks directly to farmers for agricultural purposes, such as crop loans. In addition, it also includes following advances:

(i) Advances upto Rs. 10 lakh to farmers against pledge/ hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months irrespective of whether, where the farmers were given crop loans for raising the produce or not.

(ii) Medium and long-term loans (provided directly to farmers for financing production and development needs) such as Purchase of agricultural implements and machinery, Development of irrigation potential, Reclamation and Land Development Schemes, Construction of farm buildings and structures, etc.

(iii) Loans to plantations, development of allied activities such as fishery, poultry etc.

(iv) Establishment of bio-gas plants.

(v) Purchase of land for agricultural purposes by small and marginal farmers.

(vi) Loans to agri-clinics and agri-business centres.

2.4 Indirect agricultural finance on the other hand covers advances provided by banks to farmers indirectly, i.e., through other agencies. Important items included under indirect finance to agriculture are as under :

(i) Credit for financing the distribution of fertilisers, pesticides, seeds, etc.

(ii) Loans upto Rs. 25 lakhs granted for financing distribution of inputs for the allied activities such as, cattle feed, poultry feed, etc.

(iii) Loans to Electricity Boards for reimbursing the expenditure already incurred by them for providing low tension connection from step-down point to individual farmers for energising their wells.

(iv) Loans to State Electricity Boards for Systems Improvement Scheme under Special Project Agriculture (SI-SPA).

(v) Deposits held by the banks in Rural Infrastructure Development Fund (RIDF) maintained with NABARD.

(vi) Subscription to bonds issued by Rural Electrification Corporation (REC) exclusively for financing pump-set energisation programme in rural and semi-urban areas and also for financing System Improvement Programme (SI-SPA).

(vii) Subscriptions to bonds issued by NABARD with the objective of financing agriculture/allied activities.

(viii) Finance extended to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, subject to the following conditions:

(a) The dealer should be located in the rural/semi-urban areas.

(b) He should be dealing exclusively in such items or if dealing in other products, should be maintaining separate and distinct records in respect of such items.

(c) A ceiling of upto Rs. 20 lakhs per dealer should be observed.

(ix) Loans to Arthias (commission agents in rural/semi-urban areas) for meeting their working capital requirements on account of credit extended to farmers for supply of inputs.

(x) Lending to Non-Banking Financial Companies (NBFCs) for on-lending to agriculture.

2.5 Evidently both public and private sector banks have not been able to reach the mandated level of disbursing 18% credit to agriculture as seen from the data contained in the issues of Trend and Progress of Banking for the last five years. The tabulated data is shown below:

(in percentage of net bank credit)

Year	Public Sector Banks			Private Sector Banks		
	Direct	Indirect	Total	Direct	Indirect	Total
March, 2003	10.84	4.54	15.34	6.28	8.06	10.78
March, 2004	11.08	4.33	15.41	7.81	8.00	15.81
March, 2005	11.52	4.16	15.68	7.59	5.82	12.09
March, 2006	11.00	4.30	15.20	9.00	5.60	13.50
March, 2007*	11.2	4.40	15.60	8.32	7.14	12.82

*Provisional

2.6 The Committee had, while examining the Demands for Grants (2008-09) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) taken note of the fact that only 8 of the 28 public sector Banks and 2 of the 26 private sector banks could, on date, achieve the stipulated target of disbursing 18% of the net bank credit to agriculture sector. The names of these banks are shown below:

Sl. No.	Public Sector Banks
1.	Allahabad Bank
2.	Andhra Bank
3.	Bank of India
4.	Indian Bank
5.	Indian Overseas Bank
6.	Punjab National Bank
7.	State Bank of Bikaner and Jaipur
8.	State Bank of Saurashtra

Sl. No.	Private Sector Banks
1.	Lord Krishna Bank
2.	SBI Commercial and International Bank

2.7 As per the report on Trend and Progress of Banking in India, 2006-07 the percentage of recovery to demand of direct agricultural advances has improved during the last three years in case of public sector banks as shown in the following table:

Recovery of Direct Agricultural Advances

(Amount in Rs. crore)

Year (June end)	Demand	Recovery	Overdues	Percentage of recovery to demand
2004	33,544	25,002	8,542	74.5
2005	45,454	35,733	9,721	78.6
2006	46,567	37,298	9,269	80.1

2.8 In response to a question posed by the Committee on the reasons for lower credit disbursements by public sector banks to agriculture *vis-a-vis* stipulated targets, the Ministry of Finance (Department of Financial Services) in a written reply, *inter-alia* furnished the following as the reasons:—

1. Non-completion of formalities by the borrowers due to lack of literacy;
2. Lack of coordination between banks and Government Sponsoring Agencies;
3. Lack of awareness of the guidelines of the scheme among the officials of both banks and Government Sponsoring Agencies;
4. Bunching of applications and their submission by the Sponsoring Agencies at the fag end of the year;
5. Non-receipt of subsidy/delay in receipt of subsidy;
6. Lack of forward and backward linkages;
7. Absence of fixed place of business/address of the applicant;
8. Poor recovery under the schemes;
9. Poor sponsoring of applications; and
10. Diversion of funds by the borrowers for their high consumption needs.

2.9 The reasons attributable for the private sector banks being unable to achieve the agricultural lending targets as informed by the Ministry of Finance (Department of Financial Services), are as under:

(a) bank credit to other sectors was growing at a faster rate;

(b) inadequate rural branch network of some of the banks;

(c) write-off of non-performing loans leading to reduction in the outstanding advances in the case of some banks;"

3. RURAL INFRASTRUCTURE DEVELOPMENT FUND

3.1 Rural Infrastructure Development Fund (RIDF) was set up with NABARD under the initiative of the Central Government in 1995-96 to provide loans to the State Governments for financing rural infrastructure projects. Since then, fourteen tranches of allocations have been made towards the fund. Commercial banks make contributions to the fund to the extent of shortfalls in their agriculture and/or priority sector lending. Since 1999-2000, the scope of RIDF has been widened to enable utilisation of loans by Panchayat Raj institutions (PRIs), Self-Help Groups (SHGs), and Non Government Organisations (NGOs), among others. In pursuance to the announcement made by the Finance Minister, a separate window was opened under RIDF XII for funding rural road component of Bharat Nirman Programme with an allocation of Rs.4,000 crore during 2006-07. At present, the system of allocation under RIDF to banks as revised by RBI since 2nd July, 2007 is as follows:

> "50% of the corpus shall be allocated among the domestic commercial banks having shortfall in lending to priority sector target of 40% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever, is higher, on a pro-rota basis. The balance 50% of the corpus shall be allocated among the banks having shortfall in lending to agriculture target of 18% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever, is higher, on a pro-rota basis. The amount of contribution by banks to a particular tranche of RIDF will be decided in the beginning of the financial year".

3.2 Presently, the rate of interest payable to banks on RIDF deposits ranges from 3 to 6%.

3.3 Questioned about the criteria followed for determining the extent of contribution and details of the tranche-wise deposits made to RIDF by scheduled commercial banks, the Ministry of Finance (Department of Financial Services) have, in a written reply, furnished the following information:

> "The corpus of a particular tranche of RIDF is decided by Government of India every year.
>
> Further, the bank-wise allocation of RIDF is decided by RBI based on the shortfall in the lending to the priority sector and/or

agriculture sector by the Domestic Scheduled Commercial Banks, in the public as well as private sector, as on the last reporting Friday of March, of the preceding year. The percentage of shortfall to be contributed to RIDF is distributed amongst banks by RBI as per the corpus of RIDF announced by the Government. Banks deposit funds as per the demands made by NABARD based on the utilization by State Governments under RIDF.

Details of year-wise and tranche-wise amount contributed to RIDF by public and private sector banks during the years 2004-05 to 2007-08 (up to 31.01.2008) are given in the table below:

(Rs. in Crore)

Year	Tranche	Corpus	Amount Sanctioned upto 31.01.08	Amount deposited by banks upto 31.01.08	Gap in Utilisation
2004-05	X	8,000	8,075.80	5,318.29	2,681.71
2005-06	XI	8,000	8,424.09	3,916.67	4,083.33
2006-07	XII	10,000	10,458.85	2,685.14	7,314.86
	Bharat Nirman	4,000	4,000	1,548.08	2,451.92
	Sub-Total	14,000	14,458.85	4,233.22	9,766.78
2007-08	XIII	12,000	10,562.01	428.51	11,571.49
	Bharat Nirman	4,000	4,000	0.00	4,000
	Sub-Total	16,000	14,562.01	428.51	15,571.49

The validity of sanctioned project in RIDF is normally three years. However, due to slow progress of the schemes and drawal by the States the implementation is normally delayed and sometimes even extends beyond six years. Hence, in the first two years, the utilisation is slow, picking up only during the third and subsequent years of the project. Due to this reason the contribution from banks seem less for RIDF XIII than RIDF XI".

3.4 Asked to furnish details of shortfall in lending to agriculture vis-à-vis contributions made by banks to RIDF, the Ministry of Finance (Department of Financial Services) have stated as follows in reply:

"The details of shortfall in lending to agriculture and contribution to RIDF by public and private sector banks (group-wise) for the

last three years (year-wise), both in absolute terms as well as percentage of total shortfall in lending to agriculture, are as follows:

(Rs. Crore)

Year	Tranche	Corpus	Public Sector Banks				Private Sector Banks			
			Shortfall in Agriculture lending	Contri-bution to RIDF	Difference	% age	Shortfall in Agriculture lending	Contribu-tion to RIDF	Difference	% age
2004-05	X	8,000	17,411.53	4,262.86	13,148.67	24.48	6,752.99	1,055.43	5,697.56	15.63
2005-06	XI	8,000	21,967.01	3,153.29	18,813.72	14.35	9,792.10	763.38	9,028.72	7.80
2006-07	XII	10,000	25,199.13	2,046.63	-	-	11,428.68	638.51	-	-
	Bharat Nirman	4,000	-	1,122.36	-	-	—	425.72	-	-
	Sub-Total	14,000	-	3,168.99	22,030.14	12.58	-	1,064.23	10,364.45	9.31
2007-08	XIII	12,000	31,336.39	226.22	-	-	17,968.31	202.29	-	-
	Bharat Nirman	4,000	-	0.00	-	-	-	0.00	-	-
	Sub-Total	16,000	-	226.22	31,110.17	0.72	-	202.29	17,766.02	1.13

As the contribution to the corpus is made by the Banks over a period of 6 years depending on the utilisation of funds by the State Governments for implementation of their RIDF scheme, the experience has been that the contributions pick up substantially in the last 3 years. In RIDF VIII & IX, the contribution has been almost 91.45% & 79.95% of the corpus so far. These tranches are still not closed".

3.5 With specific reference to one public sector bank, namely, the Vijaya Bank, with whom the Committee had an informal discussion in the course of their on-the-sport study visit, details of the shortfall in agricultural lending, the amount of shortfall asked to be deposited by the bank in RIDF, and the amount actually deposited, as furnished in response to a query posed by the Committee, is shown in the table below:

(Rs. in Crore)

Year	Shortfall		RIDF Deposit asked to be deposited	Actual amount deposited	% of RIDF investment to NBC	Rate of interest offered on RIDF deposit
	% to NBC	Quantum				
1	2	3	4	5	6	7
March 1995	2.31%	51.70	30.51	24.27	1.08%	12.5%
March 1997	0.87%	19.38	4.00	3.71	0.17%	11.5%

1	2	3	4	5	6	7
March 1999	2.26	75.80	26.39	24.43	0.73%	8.00%
March 2001	2.34	112.21	25.03	20.65	0.43%	6-7.5%
March 2002	3.22%	183.74	79.07	75.69	1.32%	5-7%
March 2003	3.56%	251.65	108.29	24.12	0.34%	5-6.5%
March 2004	6.28%	659.15	141.72	97.00	0.92%	4.00%
March 2005	4.28%	596.85	77.19	3.88	0.03%	4.00%
March 2006	4.30%	723.15	93.52	37.41	0.22%	5.00%
March 2007	5.60%	1361.60	22.63	0.28	0.001%	4.00%

Note: NBC-Net Bank Credit

3.6 When the Committee desired to know the reasons for the wide variation in the actual shortfall in priority sector and agricultural lending, the allocation and actual deposits made in RIDF by banks, as evident in the case of Vijaya Bnak and the data furnished in respect of scheduled commercial banks as a whole, the Ministry of Finance (Department of Financial Services) have, in reply, stated:

> "RBI allocates the amount of contribution to be made by a bank keeping in mind the corpus announced for RIDF. The corpus, which was Rs. 2,000 crore for RIDF I (1995-96) has gradually increased over the years to Rs. 12,000 crore for RIDF (XIII) during the year 2007-08. Besides, during the year 2007-08, Rs. 4,000 crore has also been allocated for Bharat Nirman taking the total allocation to Rs. 16,000 crore (eight times that of the year 1995-96). RBI allocates this corpus amongst the banks in proportion to their shortfall in priority sector targets and agriculture lending targets. Banks are required to contribute from their total shortfall to RIDF up to the corpus fixed each year. The corpus of RIDF is related to:
>
> (i) Annual borrowing ceiling of the State.
>
> (ii) State Governments usually first borrow from collections under National Small Saving Schemes. Many of the State Governments resorted to prepayment of RIDF loan aggregating Rs. 7710 crore during the period February 2004 - June 2005 since the prevailing market rates for borrowing were cheaper.
>
> (iii) Actual contribution to the corpus by the banks happens when the demand is placed on the banks depending upon

the utilisation of the funds by the State Governments. The routine in this regards is:

(a) After the announcement of the Corpus, State Governments prepare the projects and send to NABARD for sanction. So, in the first year, sanction related activities occur throughout the year with some minimal disbursement for pre-operation expenses only. In the subsequent years, drawal from the banks is dependent upon the progress and phasing of the implementation of the project by the State Governments.

(b) State Governments are normally allowed up to 6 years to implement a project under RIDF, the banks are called upon to contribute to the RIDF over a period of 6 years. This is why it has been observed that for the older tranches of RIDF, utilisation has been over 80% whereas in the newer tranches of RIDF, utilisation so far is lower since disbursements are still continuing based on the utilisation of funds by the States. The experience is that contributions of banks to RIDF corpus picks up substantially in the last three years of the six years' project cycle. The tranche-wise details of corpus, sanctions and disbursements under RIDF (as on 15 February 2008) are given in following table**:**

(Amount Rs. in crore)

Year	Tranche	Corpus	Sanctions	Deposits by Domestic Commercial Banks	Col. 5/ 3*100
1	2	3	4	5	6
1995-96	I	2,000	1,906.21	1760.87	88%
1996-97	II	2,500	2,636.08	2397.95	96%
1997-98	III	2,500	2,732.69	2453.53	98%
1998-99	IV	3,000	2,902.55	2482.00	83%
1999-2000	V	3,500	3,434.52	3054.96	87%
2000-01	VI	4,500	4,488.51	4072.14	91%
2001-02	VII	5,000	4,582.32	4052.62	80%
2002-03	VIII	5,500	5,996.97	4991.93	90%

1	2	3	4	5	6
2003-04	IX	5,500	5,649.09	4549.29	80%
2004-05	X	8,000	8,077.21	5745.08	68%
2005-06	XI	8,000	8,412.07	4567.37	48%
2006-07	XII	10,000@	10,545.55	3807.22	28%
2007-08	XIII	12,000@	12,795.01	2666.04	22%
2008-09	XIV	14,000@	2,572.12	58.01	
	Total	86,000	76,730.90	46,659.01*	

@ Excluding Rs.4000 crore each for funding Bharat Nirman under RIDF XII, RIDF XIII & RIDF XIV.

* Provisional figures as on 31.05.2008 (Source: NABARD).

The tranches upto VII have already been closed. However, State Governments can draw funds under RIDF VII upto 31 March 2008."

3.7 Taking cognizance of the fact that at present, the RIDF constitutes only a part of the total shortfall of the bank lending to agriculture, the Expert on Agricultural Indebtedness, headed by Prof. R. Radhakrishna has recommended as follows:

"The entire shortfall should be earmarked for agricultural development. The unutilized portion of banks' obligation towards priority sector lending to agriculture should be fully transferred directly to NABARD or to the Central Government by issuing non-transferable Rural Development Bonds (RDBs) for financing agricultural development programmes".

3.8 The Committee had, in their report on Demands for Grants (2008-09) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) and the subject, "Credit flow to agriculture—Crisis in rural economy and Crop Insurance Scheme" (2003; 13th Lok Sabha) highlighted the issue of shortfalls in agricultural credit and recommended measures to improve credit flow. Pursuant to the recommendation made by the Committee in their report on the Demands for Grants (2008-09) of the Ministry, for an effective mechanism to ensure the targeted percentage of lending to agriculture by banks, the Ministry of Finance (Department of Financial Services) in their action taken reply informed :

"Considering the amount of shortfall in lending to priority sector (including agriculture), creation of four additional funds have been

announced in the Budget Speech 2008-09. These funds, which are to be governed by the general guidelines that are now applicable to Rural Infrastructure Development Fund (RIDF) with some modifications, are as under:—

(i) A fund of Rs. 5,000 crore is to be created in National Bank for Agriculture and Rural Development(NABARD) to enhance its re-finance operations to short term cooperative credit institutions.

(ii) Two funds of Rs. 2,000 crore each are to be created in Small Industries Development Bank of India (SIDBI) – one for risk capital financing and other for enhancing refinance capability to the small and medium enterprises sector.

(iii) A Fund of Rs. 1,200 crore is to be created in National Housing Bank (NHB) to enhance its re-finance operations in the rural housing sector.

With the announcement and constitution of these funds, the banks with shortfall in lending to priority sector, including agriculture and weaker section, would have to contribute higher amounts.

RBI has recently informed that the total shortfall of the scheduled commercial banks on account of non-achievement of overall priority sector lending target (40%) is Rs. 838.44 crore while the shortfall of the domestic commercial banks on account of non-achievement of agricultural lending target (18%) (after netting of priority sector shortfall) is Rs. 21,818.27 crore. Thus, the total shortfall of these banks under the priority sector during the year 2007-08 amounts to Rs. 22,656.71 crore and the banks would be required to deposit the whole amount in these funds".

4. INTEREST RATE ON AGRICULTURAL CREDIT

4.1 From *kharif* 2006-07, it was decided that the farmers would receive crop loans up to a principal amount of Rs. 3 lakh at 7 per cent rate of interest and the Government of India would provide necessary interest subvention to NABARD and banks for this purpose. This policy has been continued in 2007-08 also, for which the Government has made a provision of Rs. 1,677 crore in the Union Budget 2007-08.

4.2 The Committee had, in their report on the Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) observed that though the scheme of providing interest subvention to banks to the extent of 2 percent was formulated to enable extending short-term production credit to farmers at 7 percent interest rate, the requirements of the farming community demanded an affordable rate of the interest. The Committee, therefore, desired that the suggestions of the National Commission on Farmers, which included, reducing the rate of interest on crop loans, were acted upon so as to enable the farmers to access institutional credit on large scale. The Committee also recommended that the Government/RBI should initiate steps to further reduce the rate of interest on long term agricultural loans as well, so as to make it affordable for farmers.

4.3 In response to the observations of the Committee on the interest rate applicable on agricultural credit, the action taken note furnished by the Ministry of Finance (Department of Financial Services) states as under:—

> "Banks fix the rates of interest taking into account their cost of fund, transaction cost and risk. With the deregulation of interest rates by the Reserve Bank of India (RBI), Banks are free to fix the rate of interest on loans above Rs. 2 lakh provided by them to farmers. However, interest rates for loans up to Rs. 2 lakh should not exceed the Benchmark Prime Lending Rate (BPLR) in order to benefit small borrowers including small and marginal farmers.
>
> Banks have been providing crop loans to the farmers @7% with an upper limit of Rs. 3 lakh on the principal amount *w.e.f. Kharif* 2006-07. This has happened on account of the interest subvention provided by the Government to Public Sector Banks, Cooperative Banks and Regional Rural Banks (RRBs) on the involvement of their own funds and concessional refinance to RRBs and Cooperative banks through NABARD…
>
> The loans provided for investment purposes such as farm mechanization, equipments etc. are for longer periods and are related to the size of the project. The rates of interest charged on

such investment loans are related to cost of borrowings, transaction and risk cost of the lending bank. Any reduction in the rate of interest for such purposes as in the case of crop loans may not be financially viable for the lending banks. Bank are taking steps to reduce their transaction costs through better use of information Technology, Banking Correspondents/Business Facilitaters models, etc. Risk premium can come down by introduction of appropriate insurance products, positive credit information from credit bureaus, better market facilities, proposed credit guarantee scheme for the distressed farmers, etc. With these measures, the rates of interest are likely to come down".

4.4 The National Commission on Farmers, in their final report, has recommended as follows on the issue of interest rate on agriculture credit:—

"The need is to improve the outreach and efficiency of the rural banking system. The financial services must reach all its users effectively; the credit must be in time, in required quantities and at appropriate interest rate. The interest rate should be as low as possible. It should be possible to bring about a reduction in transaction cost by eliminating all forms of waste and inefficiency in the operation of the banking system. The inefficiencies of the delivery system should not be loaded on the interest charged. The delivery system has to be proactive and should respond to the financial needs of clients in the rural areas. The banking system needs to explore the large unmet credit potential needed to raise agriculture to higher thresholds, and for the growth of rural and agri-business enterprises and employment.

The State has a responsibility towards improving the credit absorptive capacity of the farmers and to support the banking system by creating favourable environment for expanding and deepening of financial services.

NABARD as the leader of agriculture and rural credit should ensure, convergence between credit availability and credit absorptive capacity of the farmers and other rural borrowers, and an efficient credit delivery system. NABARD should actively involve itself in institution building and provide backup support through research and development initiatives. NABARD should function like a National Bank for Farmers. There is a need for a fresh look at its mandate, role and business model after about 25 years of its establishment and vastly changed circumstances.

The Reserve Bank and Government of India have to broadly assign the roles and responsibilities to different agencies in the multi-agency system and ensure implementation of their policies and programmes. There is a need for an Agriculture Credit Policy".

5. ROLE OF COOPERATIVE BANKS

5.1 Cooperative movement in India started in 1900 when the Cooperative Societies Act was passed in 1904. RBI played a major role in developing cooperative banks.

5.2 Co-operative Banks have two main categories, *viz.*, urban co-operative banks with single tier structure and rural co-operative credit institutions with multi tier structure. Rural cooperative credit institutions have two distinct categories, *viz.*, the Short-term co-operative credit structure (STCCS) and the Long-term Co-operative credit structure (LTCCS). Within the STCCS, primary agricultural credit societies (PACS) are at the village level, District Central Co-operative Banks (DCCBs) are placed at the intermediate level, and the State Co-operative banks (STCBs) at the apex level. The long-term structure of rural Co-operatives comprises State Co-operative agriculture and rural development banks (SCARDBs) at the State level, and primary co-operative agriculture and rural development banks (PCARDBs) at the decentralised district or block level. The structure of rural Co-operative banks varies from State to State. Some States have a unitary structure with the State level banks operating through their own branches, while others have a mixed structure incorporating both unitary and federal systems.

5.3 According to the Expert Group on Agricultural Indebtedness, 'with the entry of commercial banks in rural credit the share of cooperative credit in total agricultural credit had gone down from 70.8 per cent in 1975-76 to only 21.8 per cent in 2005-06. While the share of cooperatives in short term credit in the form of crop loans declined from 74.9 per cent to 33.2 per cent; its share in long-term credit declined steeply from 61.2 per cent to 6.0 per cent'.

5.4 As per the information furnished to the Committee by the Ministry of Finance (Department of Financial Services) on the number of accounts financed by different agencies during the period, 2004-05 to September, 2007-08, the total number of accounts financed by cooperatives has come down, which reflects poorly on the credit delivery by cooperative banks. However in terms of outreach in rural areas cooperative banks continue to have a wider edge over scheduled commercial banks. The information is shown in the table below:

(Number in lakhs)

Year	Agency wise number of accounts financed			Total
	Commercial Banks	Coops. & others	RRBs	
2004-05	127	225	61	413
2005-06	146	193	46	385
2006-07	146	189	62	397
2007-08 (Upto Sept.' 07)	75	135	27	237

5.5 Data on credit flow to agriculture by Co-operatives from 2004-05 to 2006-07 as shown in 11th Five Year Plan document are given below:

Year	Credit (Rs. in crore)	Growth (%)
2004-05	31,424	17
2005-06	39,404	25
2006-07	42,480	8

5.6 As indicated in the Report of the Committee on Financial Inclusion, the problem of sickness in the Indian rural cooperative movement became evident as early as in 1930s. The All India Rural Credit Survey, was set up in the Third Phase (1950-1990) of Co-operative Movement, which recommended State partnership in equity, governance and management to revive the cooperatives. However, as per the report, attempts such as these failed to resolve the persistent problems of poor governance, management and weak financial health and the Co-operative banks are continuing to struggle with problems of low resource base, high dependence on external sources of funding, excessive control, huge accumulated losses, imbalances, poor business diversification, low recovery etc.

5.7 In order to look into the problems of co-operative credit societies and suggest remedial measures, a Task Force on Revival of Rural Cooperative Credit Institutions (Vaidyanathan Committee) was set up in 2004. The Task Force observed that the Co-operative Credit structure (CCS) was impaired in governance both on managerial and financial fronts and, hence, needed to be revived and restructured. It favoured restoration of the autonomous character of credit co-operatives by bringing down the control and interference of State Governments through suitable amendments to the State Cooperative Societies Acts and the Banking Regulation Act, 1949. It also recommended provision of required financial assistance for recapitalisation of the Short-term Co-operative Credit Structure (STCCS) for funding the accumulated losses of the structure, evolving a common accounting system, management information system (MIS), computerisation and human resource development (HRD) initiatives. Financial assistance was recommended to be back ended, subject to the introduction of institutional, legal and regulatory reforms.

5.8 For the revival of the STCCS, the Vaidyanathan Committee Report has suggested an implementable Action Plan with substantial financial assistance for recapitalization subject to introduction of strict

legal and institutional reforms together with technical assistance for Human Resource Development(HRD), establishment of a common accounting system and computerization.

5.9 The recommendations of the Task Force have been accepted in principle by the Government. Based on the recommendations of the Task Force, the Central Government finalised a Revival Package encompassing the financial assistance as well as legal and institutional reforms. It envisages a total outlay of Rs. 13,596 crore to be shared by Government of India, State Governments and the Cooperative Credit Structure in the ratio of 68:28:4. The assistance is available for (a) wiping out accumulated losses, (b) covering invoked but unpaid guarantees given by State Governments, (c) increasing the capital to a minimum level of 7% and (d) technical assistance (including cost of special audit, training, computerization etc.). As informed to the Committee, so far, seventeen States have executed the MoU with NABARD and Government for implementing the Package, and five more States have given consent to sign the MoU. Till date, Rs. 3470 crore has been released by the Government as grants under the package.

5.10 As seen from the report on Trend and Progress of Banking, the implementing agency of the revival package of Cooperative Credit Institutions, NABARD, devised field tested formats for special audit of Primary Agricultural Co-operative Societies (PACS) to arrive at the exact extent of accumulated losses. In conformity with the reform measures envisaged under the Revival Package, the State Governments of Andhra Pradesh and Haryana have reportedly brought in amendments to their respective Co-operative Societies Acts, and several other State Governments are in the process of effecting similar amendments.

5.11 Further, as informed to the Committee, in accordance with the recommendations of the Task Force for revival of Long-Term Co-operative Credit Structure, submitted in August 2006, a revival package for Long Term Cooperative Credit Structure (LTCCS) is also under the consideration of the Government. The package was prepared after consultation with the concerned States in meetings organized on 10.10.2007, on 29.1.2008 and on 21.2.2008. It was announced in the Budget 2008-09 that the Central Government and the State Governments have reached an agreement on the content of the package to implement the Prof. Vaidyanathan Committee's report on reviving the LTCCS. The cost of the package is estimated at Rs. 3,074 crore, of which the Central Government's share will be Rs. 2,642 crore or 86 per cent of the total burden.

6. EXPANSION OF REGIONAL RURAL BANKS (RRBS)

6.1 Regional Rural Banks (RRBs) came into existence in 1976 with the promulgation of the Regional Rural Banks Act for establishing a set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. The equity of RRBs is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35. The number of RRBs went up from 6 in December, 1975 to 196 in 2004.

6.2 According to the report of the Expert Group on Agricultural Indebtedness, the performance of RRBs deteriorated during the 1990s owing to factors such as low recovery rates, low earning capacity due to limits imposed on interest rate charged by them, increase in wages and salaries and competition with sponsoring banks in their area of operation. However, beginning with 2002, the performance of RRBs is stated to have improved.

6.3 The main problem confronted by RRBs being their financial health, a number of Committees have gone into the problem of their financial viability *viz*. Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD,1981) Working Group on RRBs (Kelkar Committee, 1984), Agricultural Credit Review Committee (Khusro Committee, 1989), Committee on Restructuring of RRBs (Bhandari Committee, 1994), Commtitee on Revamping of RRBs (Basu Committee, 1996), Expert Group on RRBs (Thingalaya Committee, 1997), Expert Committee on Rural Credit (Vyas Committee I, 2001), Chalpati Rao Committee, 2003, Group of CMDs of Select Public Sector Banks, 2004 (Purwar Committee) Advisory Committee on Flow of Credit to Agriculture and Related Activities etc. The suggestions of these varied from vertical merger (with sponsor banks), horizontal merger (amongst RRBs operating in a particular region) and liquidation etc. to make RRBs financially viable.

6.4 The Working Group under the Chairmanship of A.V Sardesai revisited the issue of restructuring the RRBs in 2005. This Group held that to improve the operational viability of RRBs and take advantage of the economies of scale, the route of merger/amalgamation of RRBs may be considered taking into account the views of the various stakeholders. Merger of RRBs with the sponsor bank is not provided in the RRB Act 1976. The Committee was of the view that a change

in sponsor banks may, in some cases help in improving the performance of RRBs. Various other measures suggested by this Group include balance sheet strengthening, maintaining minimum capital, governance and management issues, regulatory and supervisory aspects and methods for improving profitability of RRBs.

6.5 The Reserve Bank of India (RBI) in September, 2006, constituted a Task Force on Empowering the RRB Boards for Operational Efficiency (Chairman: Dr. K.G. Karmakar) to suggest ways for giving more power and flexibility to the Boards of RRBs in decision making. In its report submitted on January 31, 2007, the Task Force, made several recommendations relating to operational flexibility of RRBs. While some of the recommendations of the Task Force have reportedly been implemented, others are under examination.

6.6 In order to reposition RRBs as an effective instrument of credit delivery in the Indian financial system, the Government of India, after consultation with NABARD, the concerned State Governments and the sponsor banks initiated State-level sponsor bank-wise amalgamation of RRBs in September 2005 to overcome the deficiencies prevailing in RRBs and making them viable and profitable units.

6.7 According to the Annual Report 2007-08 of NABARD, following the amalgamation of RRBs (2005-06 onwards), the number of RRBs has been reduced from 196 to 96 with an operating network of 14,520 branches covering 534 districts in 26 States as on 31 March 2007. Over a period of three years (2005-07), aggregate reserves of RRBs increased significantly (28%), while the deposits and investments increased by 34 and 24 percent, respectively. During the same period, loans and advances outstanding increased by 47 percent while loans issued increased by 57 percent.

6.8 During the year, 81 of 96 RRBs attained current viability and showed improvement by way of increase in profits, reduction in losses or by transcending from loss to profit by end-March 2007. The remaining 15 RRBs continued to be loss-making entities. The amount of net profit posted by RRBs as a group increased to Rs. 625.15 crore during 2006-07 as against Rs. 617.13 crore in 2005-06. The aggregated reserves of 56 RRBs that had wiped off their accumulated losses and attained sustainable viability was Rs. 4,901.54 crore at end-March 2007. Net worth of RRBs as a whole stood at Rs. 4,526.48 crore as on 31 March 2007.

6.9 As per the announcement of the Union Budget 2007-08, among other measures, the RRBs, which have a negative net worth, would be recapitalised in a phased manner. Modalities for recapitalisation are

being worked out in consultation with select sponsor banks and the National Bank for Agriculture and Rural Development (NABARD).

6.10 Questioned on the number of RRBs making losses at present, the Ministry of Finance (Department of Financial Services) have, in a written reply informed:

"As per the financial results for the year 2007-08, out of 91 RRBs, the following 9 are loss making RRBs:

Sl.No.	Name of RRB	Sponsor Bank
1.	Lalinga Gramya Bank	UCO Bank
2.	Ellaquai Dehati Bank	State Bank of India
3.	Paschim Banga Gr. Bank	UCO Bank
4.	Arunachal Pradesh Rural Bank	State Bank of India
5.	Mewar Aanchalic Gramin Bank	Bank of Rajasthan Ltd.
6.	Manipur Rural Bank	United Bank of India
7.	Kshetriya Kisan Gramin Bank	UP State Co-Operative Bank Ltd.
8.	Kamraz Rural Bank	J&K Bank Ltd.
9.	Nagaland Rural Bank	State Bank of India

The sponsor banks have been made squarely responsible for the performance of RRBs. The banks have been advised to monitor the loss making RRBs periodically and take necessary measures to improve their performance. As a result of the measures undertaken, it is expected that some of these RRBs would be making profits during the current year."

6.11 On the measures being taken for restructuring RRBs by way of recapitalisation etc., the Secretary, Department of Financial Services, while deposing before the Committee stated *inter alia*:

"….the Government has been taking steps to recapitalize RRBs having negative net worth. Sir, 27 RRBs having negative net worth of Rs. 1,795 crore are being recapitalized by the shareholders, of which the Government of India has released Rs. 303.11 crore in the last financial year.

Budget has also envisaged constitution of a National Rural Credit Short Term Operation Fund of Rs. 5,000 crore to NABARD for

refinance operations. Then, pending the acceptance of the recommendations of the Committee on Financial Inclusion, recommendation relating to the RRBs commercial banks and adding at least 250 new household accounts every year per rural/semi urban branch has also been accepted."

6.12 Responding to a question on the effect of the policy measures on amalgamation and recapitalisation on the financial health of RRBs, the Secretary informed on 4th April, 2008 :—

"We had 96 in the beginning of the year, there are 16 RRBs which are at loss. The number of RRBs which are making profits has steadily increased and we had 40 RRBs which were making losses in 2003. It has come to 16 in 2007. After amalgamation, out of 92, we have got 16 RRBs which are making losses. We expect this to come to 11 by 31.3.2007 and there has been considerable improvement in the performance of RRBs. As regards the recapitalization effort, we are giving now to 27 RRBs and the Government of India has agreed to release Rs. 897.98 crore out of which we have released Rs. 303.11 crores last year. So, we are very hopeful that the performance of RRBs will be steadily improving and they will increase the coverage."

6.13 While analyzing the performance of RRBs, the Expert Group on Agricultural indebtedness, observed as follows:

"Despite their better performance, RRBs have not so far been able to show a worthwhile improvement in financial margins, cost of operation and gross margins. In order to improve their financial performance, the RRBs will have to diversify their investments from low yielding government bonds to more remunerative areas."

6.14 In accordance to the announcement made by Finance Minister in Union Budget 2007-08 for covering hitherto uncovered districts and taking up aggressive branch expansion programmes by RRBs, 49 uncovered districts will be covered by RRBs as notified by Government of India and 11 districts are under consideration for notification. A new RRB "Puduvai Bharathiar Grama Bank" was set up in Puducherry to cater to needs of the Union Territory. Of the 678 proposed branches, 268 branches *vis-a-vis* 554 licenses issued by RBI, were opened as at end-March 2008.

6.15 On the issue of expanding coverage of RRBs by way of opening new branches in unbanked areas etc., the Ministry of Finance

(Department of Financial Services) in their written submission, stated as under:

> "RRBs have been advised to cover the uncovered districts and to expand their branch network in the existing districts covered as well as the new districts being covered. As a result thereof, the number of uncovered districts have now been reduced to 37, out of which 23 districts are in the Union Territories/States, wherein RRBs have not been established. The RRBs were advised to undertake aggressive branch expansion as announced in the Budget Proposals for the year 2007-08. As a result thereof, 409 branches have been opened by RRBs as on 31.7.2008 and another 164 branches are expected to be opened by 30.9.2008. It is expected that RRBs after recapitalization would be able to expand their business and would also be able to participate actively in the branch expansion programme".

7. KISAN CREDIT CARD (KCC) SCHEME

7.1 The Kisan Credit Card (KCC) scheme was introduced in August 1998 for providing adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of all inputs in a flexible and cost effective manner. Initially, only short and medium term loans were being provided through KCC scheme. From 31 January, 2006, the scheme has been extended to all types of loan requirements of borrowers of State Cooperative Agriculture Rural Development Banks. It covers short term/medium term and long term credit as also a reasonable component of consumption credit within the overall limit sanctioned to borrowers. Credit limit under KCC scheme is fixed on the basis of operational land holding, cropping pattern and scale of finance. The scheme has been implemented by all public sector commercial banks, RRBs and cooperative banks in all States and UTs.

7.2 The details of Kisan Credit Cards (KCC) issued by all agencies during the years 2004-05 to 2007-08 (upto September, 2007), as furnished by the Ministry of Finance (Department of Financial Services) is indicated in the table below:

(No. in lakh & amount in crore)

Agency	2004-05		2005-06		2006-07		2007-08 (upto Sept' 07)		Cumulative Total (Since 1998-99 to 30 Sep' 07)	
	Issued	Amt. Sanc.	Issued	Amt. Sanc.	Issued	Amt. Sanc.	Issued	Amt. Sanc.	Issued	Amt. Sanc
CBs	44	14,756	42	18,779	38	19,786	N.A	N.A	256	88,282
RRBs	17	3,833	12	8,483	14	7,373	9	3,230	92	32,671
Coops	36	15,597	26	20,339	23	13,141	10	13,824	337	1,18,393
Total	97	34,186	80	47,601	75	40,300	19	17,054	685	2,39,646

7.3 It has been stated by the Ministry of Finance (Department of Financial Services) that as on 30.6.2008, commercial banks, RRBs and Cooperative Credit Institutions have issued 7,42,56,971 KCCs to the farmers with a sanctioned amount of Rs. 2,75,349 crore (figures provisional). It has also been stated by the Ministry that only about 397 lakh farmers (60%) have reportedly availed agricultural credit during the year 2006-07. Ineligibility to avail fresh loans on the part of a large number of farmers due to their inability to service their

past dues have been attributed as a major factor. Analysis of the recovery position reveals that around 20-30% of the borrowers become defaulters during a year and consequently become ineligible for getting fresh advances. The cumulative effect of this would naturally lead to higher percentage of borrowers (around 40% by 31 March, 2007) becoming ineligible for getting credit from the institutional sources.

7.4 On the measures initiated for making the KCC scheme more effective, the Ministry of Finance (Department of Financial Services) in a written reply stated *inter alia*:

> "NABARD has advised banks to extend coverage through expanding their outreach by lending to more farmers including non-willful defaulters, oral lessees, tenant farmers, share croppers, who may have been outside the fold of the scheme as also new farmers."

7.5 As per the Trend and Progress of Banking, the State-wise progress in implementation of KCC scheme revealed that Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh were forerunners in the implementation of the scheme, accounting for 75 per cent of the total cards issued by banks across the country. The progress was, however, tardy in Goa, Himachal Pradesh, Jammu and Kashmir, Sikkim and the States in North-Eastern Region.

7.6 Asked about the total amount of credit availed by farmers under KCC scheme and the percentage of recovery under the scheme, the Ministry of Finance (Department of Financial Affairs), have, in reply, informed, *inter-alia*:—

> "The Data Reporting System of NABARD, the nodal agency for implementation of KCC Scheme, does not generate information about the total amount of credit availed by KCC holders/recovery percentage of loans under KCC Scheme."

7.7 When asked whether defaulters under the KCC scheme become ineligible for fresh loans and to furnish figures relating to the percentage of defaulters under the scheme for the last three years, the Ministry of Finance (Department of Financial Services) have in a written reply, stated:

> "The KCC is normally valid for 3 years, subject to annual review. The review may result in continuation of the facility, enhancement of the limit or cancellation of the limit/withdrawal of the facility, depending upon the performance of the borrower. As per the

instructions of the scheme, no drawal in the account should remain outstanding for more than 12 months. If banks are not satisfied with the reasons of default, they may even deny fresh credit to the defaulters".

7.8 The Reserve Bank of India had commissioned a study through the National Council of Applied Economic Research (NCAER), New Delhi to assess the nation-wide impact of Kisan Credit Card (KCC) Scheme. Questioned on the measures taken by the Government to make the scheme more effective in pursuance of the findings/ observations of the NCAER study, the Ministry of Finance (Department of Financial Services) have, in a written reply stated *inter alia*:

"While some positive features of the Scheme, viz. reduction in cost of borrowing, significant reduction in time for processing the loan applications, decline in borrowings from informal sources (money lenders, etc.), decrease in operational expenses of banks, etc. have been brought out by the study, some weaknesses as under have also come to light, which needed remedial action so as to expand the coverage of the KCC Scheme and improve the flow of credit to agriculture. Accordingly, the banks have been advised to take appropriate action on the following lines so as to ensure adequate, timely and hassle free credit to the farmers as envisaged under the KCC Scheme:

Sl.No.	Weaknesses	Action required/suggested
1	2	3
1.	Some banks are issuing KCCs only to pensioners to ensure repayments (para 3.46).	Banks need to issue KCCs to all eligible borrowers with a view to ensuring all crop loans are disbursed through KCC. Issue of KCC may not be restricted.
2.	a) Non-provision of cheque book withdrawal facility to KCC holders (para 6.16); b) Inability of farmers to use their KCCs outside the normal limited area of operation (usually, village or block) (para 6.17); c) Restrictions on number of transactions (para 6.18).	Keeping in view the spirit and objective of the Scheme banks are to— - provide cheque book withdrawal facility to all KCC holders; - allow withdrawal facility to KCC holders in some designated branches, other than the KCC issuing branch; - permit frequent drawals/repayments to KCC holders for enabling them to operate the limit as revolving cash credit so as to derive optimal benefits.

1	2	3
3.	Fixing minimum credit limit under the Scheme by some bank branches in contravention of extant instructions (para 6.24).	The Scheme envisages adequate credit to the KCC holders and banks are required to follow suggested scales of finance. Banks were advised to refrain from having such floor limits.
4.	There are significant differences in service as well as inspection charges levied by banks (para 6.25).	The charges for issuing KCC should be commensurate with the actual expenses and it should not be considered as a source of income. The fee charged, if any, for issue of a laminated photo card should not exceed Rs.50/-. Further, no service charges or inspection charges should be levied by banks on KCC with credit limits upto Rs.25,000/-.
5.	Credit limits in many cases are inadequate for farmers. There are many restrictions even within these limits (e.g. in some cases, even the limits are specified every month and if a farmer defaults, his overall limit gets reduced proportionately). As a result, borrowers are forced to meet their balance requirements from informal sources (money lenders, etc.). Further, while fixing credit limits, inclusion of opportunity cost of family labour and essential consumption expenditure is desirable (paras 6.35, 6.36 & 6.37).	Banks are advised to sanction adequate credit limits to farmers. Restrictions in operations on KCC accounts is working against the basic objective of allowing flexibility in operations on KCC accounts. Further, while fixing credit limits, opportunity cost of family labour and essential consumption expenditure may also be taken into account.
6.	Innovative ideas like mobile banking, establishing internet kiosks in villages and involving village level institutional agents are worth exploring to achieve the target of issuing KCC to all eligible farmers (para 6.32).	Banks may consider adopting the above suggestions, in order to bring about qualitative improvement in the rural credit scenario.

1	2	3
7.	Financial and non-financial incentives (education, training, etc.) related to performance need to be thought of to improve the productivity of bank staff, though it has to be kept in view that ultimately low operational and transaction costs are key to improving the outreach and sustainability of formal finance (para 6.33).	Banks may consider adopting the above suggestions in order to bring about qualitative improvement in the rural credit scenario.

7.9 On the Kisan Credit Card Scheme, the Expert Group on Agricultural indebtedness has recommended as follows:

> "The Kisan Credit Card needs to be made more comprehensive. The card must be able to provide adequate information on farmers assets and credit profile. Further, the farmer should be able to access credit, market services and information by swiping the card.
>
> The card may be designated as Bharat Kisan Card (BKC). NABARD should implement and oversee the programme with appropriate monitoring and evaluation machinery".

8. CREDIT PENETRATION—ROLE OF SELF-HELP GROUPS AND MICRO FINANCE INSTITUTIONS IN CREDIT DELIVERY

8.1 Inspite of nationalization of banks, empirical studies in 1980s showed that a large section of the poorest of the poor could not access formal banking system. In order to expand banking network to reach this segment as well as with a view to developing a supplementary credit delivery system that is cost effective and user friendly for both banks and the poor, micro finance institutions were encouraged in India. Micro financing was introduced through two models *viz*. Self-Help Group – Bank Linkage Programme and micro finance institutions.

8.2 The SHG-Bank Linkage Programme was started as an action research project in 1989. The findings of the project led to the launching of the pilot project by NABARD in 1992 with policy support from the Reserve Bank. The pilot project was designed as a partnership model between three agencies, *viz.*, the SHGs, banks and non-government organisations (NGOs). The SHGs were expected to facilitate collective decision making by the poor and provide 'doorstep banking'. The banks as wholesalers of credit, were to provide the resources, while the NGOs were to act as agencies to organise the poor, build their capacities and facilitate the process of empowering them.

8.3 The programme has since come a long way from the pilot project of financing 500 SHGs across the country. It has proved its efficacy as a mainstream programme for banking with the poor who mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small businesses such as hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep "saving and credit" facility for the poor and exploitation of the untapped business potential of the rural areas. The programme, which started as an outreach programme has not only aimed at promoting thrift and credit, but also contributed immensely towards the empowerment of the rural women.

8.4 During 2005-06, a focussed and location-specific micro-enterprise development programme (MEDP) on skill upgradation and development for sustainable livelihoods for members of the matured SHGs was launched by NABARD.

8.5 The Finance Minister in the Budget Speech for 2005-06 had indicated that the Government intended to promote MFIs in a big way. Accordingly the 'Micro-Finance Development Fund' placed with NABARD was re-designated as 'Micro-Finance Development and Equity Fund' and its corpus was enhanced to Rs.200 crore from Rs.100 crore. Further, measures are being taken to promote linkage of MFIs with banks.

8.6 During 2006-07, 686,408 new SHGs were credit linked with banks, taking the cumulative number of SHGs credit linked to 2.92 million. Bank loans disbursed to SHGs during 2006-07 amounted to Rs.6,643 crore taking the cumulative bank loan disbursed to SHGs up to March 2007 to Rs.18,041 crore.

8.7 During 2006-07, NABARD intensified the implementation of the programme in the 13 identified priority States, some of which account for the bulk of the rural poor, *viz.*, Uttar Pradesh, Orissa, West Bengal, Madhya Pradesh, Maharashtra, Gujarat, Rajasthan, Chhattisgarh, Jharkhand, Bihar, Assam, Himachal Pradesh and Uttrakhand. Accordingly, the programme spread rapidly in these States indicating a marked shift from its initial localisation in the Southern region. Non-Southern region registered a share of 48 per cent at end March, 2007, as against 29 per cent at the end of March, 2001.

8.8 In terms of relative shares of different agencies, commercial banks continue to maintain their lead both in terms of numbers of SHGs credit linked and loan disbursed. Though RRBs take the second position after banks, their share in the total has declined in recent years. The share of co-operative banks remained unchanged at 14 per cent in terms of number of SHGs credit linked and their share in loan disbursed dropped during the year.

8.9 As per the Economic Survey (2007-08) in all, 498 banks (50 commercial banks, 96 amalgamated RRBs and 352 cooperative banks) are actively participating in the programme. The average bank loan availed of per SHG and per family amounted to Rs. 65,924 and Rs. 4,708, respectively. The outreach of the programme is said to have enabled an estimated 427 lakh poor households to gain access to micro-finance from the formal banking system.

8.10 In spite of all these measures, micro finance has not been able to become a primary source of credit disbursal for poor, since a number of problems still persist *viz*. regional imbalance, good quality SHGs, graduation from credit to enterprise, promotion of SHG federation, high cost of delivery, widening of scope and outreach of SHGs etc.

8.11 On Self Help Groups (SHGs) as a means of helping the poor in getting integrated with the mainstream, the Expert Group on Financial Inclusion has observed *inter alia*:

> "The basic benefit conferred by the SHGs on the poor is the opportunity to come together for collective action to improve their livelihood, protect their interest and develop together for collective action to improve their livelihoods, protect their interest and develop the capacity to participate in mainstream activities on fair terms, with much enhanced bargaining power and negotiation skills with markets and state institutions. What cannot be achieved as individuals can be achieved collectively by creating alternative institutions. Problems of missing markets and malfunctioning markets can be effectively tackled by peoples' (farmers') institutions."

8.12 Emphasising on State intervention and support in formation of SHGs, the Expert Group recommended as under:

> "The State has to intervene actively and support the formation of such institutions to empower the disempowered farmers by promoting vigorously farmers' collective institutions."

8.13 Also, underlying the need for mitigating the burden of farmers indebtedness to money lenders, the Expert Group recommended a one-time measure of providing long-term loans by banks to farmers to enable them to repay their debts to the moneylenders. Further, the Expert Group recommended:

> "Panchayati Raj Institutions (PRIs), civil society organizations like farmers' collectives and Non-Government Organisations (NGOs) should be involved in arriving at negotiated settlements with the money lenders. This would help in achieving the objective of financial inclusion. The modalities of the scheme may be worked out by NABARD and cost of making this scheme operational in the distressed districts may be met by creating a Moneylenders Debt Redemption Fund with a corpus of Rs. 100 crores, contributed by Central and State Governments."

8.14 On the measures for mitigating farmers indebtedness, the Ministry of Finance (Department of Financial Services) have informed, *inter alia*, as follows:

> "Each State Level Banker's Committee (SLBC) convener Bank has been advised to start financial literacy and credit counseling center in their State, to help stressed farmers in making prudent use of banking facilities. As on May 10, 2006, 96 credit counseling centers have been opened by banks."

PART II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

1. Credit is an essential requirement for revitalizing agriculture. Various Committees and Expert Groups have gone into the problems of rural credit and non-availability of institutional credit to farmers. Though numerous measures have been taken by the Government from time to time to address these problems on the basis of the recommendations of these Committees, the Committee are dismayed to note that even now vast majority of farmer households do not have access to institutional credit. According to the recent report of the Committee on Financial Inclusion, headed by Dr. C. Rangarajan, 64.95 million (73%), out of 89.3 million farmer households and 46.6 million (78.2%) out of 59.6 million non-cultivator households (Agricultural labourers, artisans and others) do not have access to formal sources of credit. The Committee hardly need to point out that interest burden becomes a heavy liability to farmers, vast majority of whom take loans from non-institutional sources, like money lenders at high rates of interest due to non-availability of institutional credit. The Committee would therefore, urge that as recommended by the Committee on Financial Inclusion, at least 50% (55.77 million) of the excluded cultivator and non-cultivator households should be provided access to credit through commercial banks and RRBs by the year 2012 and the remaining households by the year 2015. The Committee would like to be informed of the specific steps taken by the Government to implement these recommendations and details of annual targets, fixed in this regard.

2. The Committee regret to note that commercial banks, despite having a vast chain of branches in rural areas have continued to fail to reach the mandated level of disbursing 18% credit to agriculture. The shortfall in bank lending to agriculture in the year, 2007-08 was to the tune of as much as Rs. 21,818 crore. More disturbing is the fact that banks appear to be averse to disburse credit to farmers despite the fact that the recovery of direct agricultural advances has been impressive and has been improving from 74.5% in 2004 to 78.6% in 2005 and to 80.1% in 2006 in the case of public sector banks. The lower disbursements to agriculture are attributed to non-completion of formalities by borrowers, lack of co-ordination between

banks and sponsoring agencies, bunching of applications, etc. The Committee feel that these are matters which could be managed by a proper co-ordination mechanism and awareness campaigns by banks. The Committee urge that suitable measures be taken to address these problems and to ensure that the targeted level of credit reaches farmers.

3. The Expert Group (headed by Prof. R. Radha Krishna) which submitted its report on 3 July, 2007 has highlighted that farmers in States which recorded the highest rates of suicide borrowed money for productive purposes *i.e.* to buy seeds, fertilizers, pesticides, etc. As brought out in a succeeding paragraph, farmers are debarred from availing institutional credit if they default under the Kisan Credit Card Scheme. The Ministry of Finance have stated that the debt waiver and debt relief scheme announced in the budget, 2008 is expected to de-clog the line of credit to farmers by bringing a sizable number of indebted farmers to access fresh institutional loans, and strengthen the rural financial institutions. The Committee feel that concerted efforts and result oriented strategies are needed to address the root cause of the malady of deep rooted indebtedness in the agrarian society. The Committee wish to be apprised of the specific measures evolved in this regard and also details of the extent to which implementation of the debt waiver and debt relief scheme has contributed in helping the debarred farmers in accessing institutional credit and in strengthening the rural credit delivery system.

4. The Committee find that the Rural Infrastructure Development Fund (RIDF) set up in 1995-96, for banks to deposit to the Fund in compensation for shortfall in lending to priority sector has failed to serve as an effective disincentive. From the data made available, the Committee are surprised to note that while the corpus under RIDF tranches X to XIII (2004-05 to 2007-08) totals to Rs. 46,000 crore, the amounts deposited by banks upto 31.01.2008 add upto only Rs. 13,896.69 crore, with the gap in utilization being to the extent of as much as Rs. 32,103.31 crore. The Committee have been informed that four more funds are being created requiring banks to deposit the whole amount of shortfall in priority sector lending, in pursuance of the recommendations of the Expert Group on Agricultural Indebtedness. The Committee find that the corpus of all the new four funds adds up to just Rs. 10,200 crore whereas the total shortfall of the banks under the priority sector lending during the year 2007-08 alone was of the order of Rs. 22,000 crore. In order to address this situation, the Committee feel that an effective mechanism should

be evolved to ensure that banks reach out to the farmers and meet the agricultural lending targets. The Committee would suggest that it may be considered whether it would be desirable to introduce any punitive measures in this regard.

5. Government provides interest subvention of 2% to public sector banks, Regional Rural Banks and Cooperative Banks to enable them to extend short-term production credit to farmers at 7% interest. The Committee agree with the National Commission on Farmers that inefficiencies of the delivery system should not be loaded on the interest charged. The Committee recommend that in order to make credit affordable and as proposed by the National Commission on Farmers and as stressed by the Committee in their 51st report (14th Lok Sabha), interest rates on agricultural credit should be brought down to 4% if necessary by extending the scheme of interest subvention. This will improve further credit absorption by farmers. The Committee would also like to know the cost cutting measures introduced by banks, the extent of their implementation, adoption of new modes of delivery *viz.* banking facilitators/banking correspondents, etc. and impact of these measures on interest rates and further deepening the credit absorption by farmers.

6. The Committee are disappointed to note that credit growth by the co-operatives to the agricultural sector has declined from 25% in 2005-06 to 8% in 2006-07. The number of accounts financed by co-operatives has also declined from 225 lakh in 2004-05 to 189 lakh in 2006-07. Co-operative societies are most potent means for widening and deepening access to institutional credit to farmers. Their revitalization is therefore vital. Though the Government has taken up measures for recapitalizing cooperative credit institutions in accordance with the suggestions of Task Force on Revival of Rural Cooperative Credit Insitution, it is not clear as to by when this exercise is expected to be completed. The Task Force had recommended amendments to State Co-operative Societies Act with a view to restoring the autonomous character of credit co-operatives. Two States (Andhra Pradesh and Haryana) have so far amended their respective Cooperative Societies Acts. The Committee are, of the view that in order to make cooperative institutions a more effective channel of disbursing rural credit, it is necessary to pursue a time bound approach for reviving them. More importantly, State Governments must be persuaded to bring in legislations amending their respective Cooperative Societies Act without further delay.

7. The Committee observe that out of 96 Regional Rural Banks (RRBs) as on 31 March, 2007, 15 were incurring losses. The poor performance of RRBs is attributed to poor recoveries, low earning capacity, hike in expenditure on account of higher wages and salaries and competition from sponsoring banks in the area of operation. With a view to improving the performance of RRBs, a number of measures have reportedly been taken, which include, amalgamation of RRBs, infusion of funds to strengthen the capital base and allowing these banks to tap deposits from new sources and to enter into new business areas. It has been stated that there are 27 RRBs having negative net worth of Rs. 1795 crore and Rs. 897.98 crore are being provided to recapitalise these banks. The Committee trust that as indicated by the Secretary, Department of Financial Services, RRBs will improve their operational and financial performance in the current year.

8. The operating network of RRBs as on 31st March, 2007 is stated to be 14,520 branches covering 534 districts in 26 States. According to the Ministry of Finance (Department of Financial Services), the number of uncovered districts by RRBs has now been reduced to 37. The Committee urge that RRBs network should be expanded to cover the remaining districts at the earliest.

9. The Committee regret to note that though the Kisan Credit Card (KCC) scheme has been extended to cover all categories of loans *viz*. short and long term loans and productive and non-productive loans, the loans sanctioned under the scheme has declined from Rs. 47,601 crore in 2005-06 to 40,300 crore in 2006-07. Similarly, it is observed that out of 685 lakh KCC holders, only about 397 lakh farmers (60%) have availed agricultural credit during 2006-07. Ineligibility to avail fresh loans by defaulters is stated to be the main reason in this regard. Consequently, as many as 40% of KCC holders are ineligible for getting credit from the institutional sources and are driven to money lenders. It appears that the scheme has led to unintended consequences. The Committee feel that it is high time, the scheme is critically reviewed with a view to plugging the short comings and to ensure that non-wilful defaulters are not put to any difficulty in accessing institutional credit.

10. The Committee find that the progress in implementation of KCC Scheme is tardy in Goa, Himachal Pradesh, Jammu & Kashmir, Sikkim and North Eastern States, which are still under-banked. Action needs to be taken to remedy the situation in these States.

11. The Committee find it surprising to note that the data reporting system of the nodal agency (NABARD) for implementation of the KCC Scheme does not include information on total amount of credit availed by KCC holders and recovery performance under the scheme. Such information is vital to assess the performance of the scheme and to overcome its weaknesses/shortcomings. The Committee, therefore, desire that the data reporting system of NABARD is geared up to include this information of vital importance to enable assessment of the successfulness of the KCC Scheme.

12. The Committee find that a number of shortcomings and weaknesses have been identified in the KCC scheme by the study undertaken by National Council of Applied Economic Research (NCAER). The weaknesses include, issuing of KCCs only to pensioners by some banks, inadequacy of credit limits in many cases, fixing of minimum credit limit by some banks and variations in service charges. The Committee desire that remedial action should be taken immediately to remove the weaknesses in order to ensure that the scheme serves as an effective means of meeting the credit requirements of farmers. The Committee hope that the Government will also take necessary action to implement the recommendations of the Expert Group on Agricultural Indebtedness particularly the one relating to making the KCC all inclusive by incorporating therein information on the credit history of the card holder.

13. The Committee note that the Expert Group on Agricultural Indebtedness has also recommended the creation of a Money Lenders Debt Redemption Fund with a corpus of Rs. 100 crore contributed by Central and State Governments. In view of the continued and increasing dependence of the rural households on money lenders for meeting credit requirements, as evident from the NSSO's survey data on rural indebtedness, the Committee expect the Government to implement the recommendation of the Expert Group without delay and create the proposed fund, which would facilitate in the swapping of debt.

NEW DELHI;
16 *December,* 2008
25 *Agrahayana,* 1930 *(Saka)*

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

APPENDIX

MINUTES OF THE TWENTY-FOURTH SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Friday, the 4th April, 2008 from 1100 hrs. to 1310 hrs.

PRESENT

Shri Bhartruhari Mahtab—*Acting Chairman*

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri A. Krishnaswamy
4. Dr. Rajesh Kumar Mishra
5. Shri Rupchand Pal
6. Shri P.S. Gadhavi
7. Shri A.R. Shaheen
8. Shri M.A. Kharabela Swain

Rajya Sabha

9. Shri Santosh Bagrodia
10. Shri Raashid Alvi
11. Shri Mangani Lal Mandal
12. Shri S. Anbalagan

SECRETARIAT

1. Shri A. Louis Martin — *Joint Secretary*
2. Shri G. Srinivasulu — *Deputy Secretary-II*

WITNESSES

Ministry of Finance (Department of Economic Affairs)

1. Dr. D. Subba Rao, Finance Secretary
2. Shri M.C. Singhi, Economic Advisor
3. Shri M. Deena Dayalan, JS & FA (Finance)

Department of Financial Services

1. Shri Arun Ramanathan, Secretary
2. Shri Amitabh Verma, Joint Secretary

NABARD

Shri Umesh C. Sarangi, Chairman

In the absence of Chairman, the Committee chose Shri B. Mahtab, Member of Standing Committee on Finance as Acting Chairman.

2. At the outset, the Chairman welcomed the witnesses to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs and Financial Services) and NABARD on Agrarian crisis and the role of rural credit facility. The major issues discussed relate to direct and indirect agricultural lending from commercial banks, farmers' suicide, quantum of money lent through money lenders, Debt waiver scheme, monitoring mechanism for expenditure through such schemes, collateral and group security etc.

4. The Chairman then requested the representatives to furnish written replies/information to/on the points raised by the Members within two days.

5. A verbatim record of proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE TWENTY-SIXTH SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, the 10th June, 2008 from 1500 hrs. to 1730 hrs.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Vijoy Krishna
4. Shri Bhartruhari Mahtab
5. Shri Rupchand Pal
6. Shri R. Prabhu
7. Shri K.S. Rao
8. Shri A.R. Shaheen
9. Shri G.M. Siddeshwara
10. Shri M.A. Kharabela Swain

Rajya Sabha

11. Shri Raashid Alvi
12. Shri M. Venkaiah Naidu
13. Shri C. Ramachandraiah
14. Shri S. Anbalagan
15. Shri Moinul Hassan
16. Shri Shivanand Tiwari

SECRETARIAT

1. Shri A.K. Singh — *Director*
2. Shri G. Srinivasulu — *Deputy Secretary-II*

Ministry of Finance

Department of Economic Affairs

1. Dr. D. Subba Rao, Finance Secretary
2. Smt. L.M. Vas, Additional Secretary (Budget)

Department of Financial Services

Shri Arun Ramnathan, Secretary

State Bank of India

Shri O.P. Bhatt, Chairman

NABARD

Shri Umesh C. Sarangi, Chairman

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finanance (Departments of Economic Affairs and Financial Services), NABARD and SBI to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives on the subject "Flow of credit to agriculture sector" with specific reference to implementation of scheme of debt waiver and debt relief as announced in the Budget for the year 2008-09 and its implications including various aspects of the debt waiver and debt relief Scheme, 2008, the issues relating to debt swapping scheme, loan waiver facility to farmers in Vidarbha, waiver of loans under KCC scheme, measurement of land holdings in desert areas, shortfall in agricultural lending by public and private sector banks, total amount of loans disbursed to farmers before 31 December, 2007, activities covered under investment loans provided to agriculture, steps being taken for implementation of Scheme of debt relief and debt waiver before 30 June, 2008, refinancing of banks in Jammu and Kashmir by NABARD and withdrawl of tractor loans by SBI etc.

4. Thereafter, the Chairman directed the representatives of the Ministry of Finance (Department of Financial Services) to furnish replies to the queries raised by the Members during the course of the meeting alongwith copy of the reports of (i) Swaminathan Committee (ii) Radhakrishna Committee and (iii) R.V. Gupta Committee within 15 days.

5. A verbatim record of proceedings has been kept.

6. The witnesses then withdraw.

The Committee then adjourned.

MINUTES OF THE TWELFTH SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, the 16th December, 2008 from 1700 hrs. to 1800 hrs.

PRESENT

Shri Ananth Kumar—Chairman

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri A. Krishnaswamy
4. Shri Bhartruhari Mahtab
5. Shri Rupchand Pal
6. Shri P.S. Gadhavi
7. Shri K.S. Rao
8. Shri Lakshman Seth
9. Shri M.A. Kharabela Swain
10. Shri Suresh Prabhakar Prabhu

Rajya Sabha

11. Shri Raashid Alvi
12. Shri Mahendra Mohan
13. Shri Vijay J. Darda
14. Shri K.V.P. Ramachandra Rao

SECRETARIAT

1. Shri R.C. Ahuja — *Additional Secretary*
2. Shri A.K. Singh — *Director*
3. Shri T.G. Chandrasekhar — *Deputy Secretary*
4. Shri R.K. Suryanarayan — *Deputy Secretary-II*

PART I
(1700 to 1740 hrs.)

WITNESSES

2. ** ** ** **

3. ** ** ** **

PART II
(1740 to 1800 hrs.)

4. The Committee, then took up the following draft reports for consideration (i) Flow of Credit to Agriculture Sector and (ii) Counterfeit Currency Notes in Circulation, and adopted the first report with minor modifications and second report without any amendment/modification.

5. The Committee then authorized the Chairman to finalise the reports in the light of the modifications made and present the same to Parliament.

A verbatim record of proceedings has been kept.

The Committee then adjourned.